



## News Release

Media Relations Office

Washington, D.C.

Tel. 202.622.4000

For Release: 4/4/03

Release No: IR-2003-45

**IRS TARGETS ABUSIVE EMPLOYEE LEASING ARRANGEMENTS**

WASHINGTON -- The Internal Revenue Service and the Treasury Department are warning taxpayers against participating in certain offshore deferred compensation arrangements involving domestic and foreign employee leasing companies.

Taxpayers who are current or past participants in such arrangements are encouraged to apply to participate in the Offshore Voluntary Compliance Initiative (OVCI) that IRS announced on January 14 of this year. Under OVCI, eligible taxpayers who step forward will not face civil fraud and information return penalties. However, taxpayers will still have to pay back taxes, interest and certain accuracy or delinquency penalties. That initiative expires on April 15, 2003.

Under the typical leasing arrangement, an individual taxpayer supposedly resigns from the current employer or professional corporation and signs an employment contract with an offshore employee leasing company. The offshore company indirectly leases the individual's services back to the original employer using one or more intermediaries. The individual performs the same services before and after entering into the leasing arrangement.

These arrangements result in the avoidance and evasion of individual and corporate income and employment taxes. The arguments used by promoters of these arrangements to justify these tax benefits are inconsistent with numerous longstanding tax principles. The IRS intends to challenge the supposed tax benefits claimed for these arrangements and to assess appropriate interest and penalties.

The IRS cautioned taxpayers against this arrangement in a recent outreach project directed to medical professionals. A copy of the IRS alert from this project is available on the IRS Web site at [www.irs.gov](http://www.irs.gov) – search for “employee leasing.” Although this document was aimed at medical professionals, it is equally applicable to other taxpayers.

Notice 2003-22, describing the abusive employee leasing arrangement, is available on IRS.gov and will be published in Internal Revenue Bulletin 2003-18, dated May 5, 2003.

Information on OVCI is available on the IRS.gov home page link “Deadline Nears for Offshore Tax Evaders.”